Pet & Libya

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EXCISE

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ACTION E-15

INFO OCT-01 AF-12 ARA-12 EUR-20 EA-15 NEA-13 RSR-01

CIAE-00 DODE-00 PM-05 H-02 INR-08 L-04 NSAE-00 NSC-10

P-03 RSC-01 PRS-01 SS-20 USIA-12 COM-08 INT-06 TRSY-11

OEP-01 JUS-02 SSO-00 IO-13 /196 W

101280

P 041654Z MAR 71
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 7481
INFO USINT ALGIERS
AMEMBASSY BENGHAZI
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION/EC BRUSSELS
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY DJAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS

2 AMEMBASSY LONDON
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
USMISSION NATO
USMISSION/OECD PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMEMBASSY VIENNA

Tripoli 452 3/4/71

DEPARTMENT OF STATE A, CDC, MR
REVIEWED BY q DATE 6/22/81
PORTIONS DENIED AS INDICATED

S E C R E T TRIPOLI 452

SUBJ: OIL SITUATION: LIBYAN NEGOTIATIONS

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B1

2. MEETINGS RESULTED IN SOME PROGRESS. COMPANIES HAVE FOUND SOME FLEXIBILITY IN LARG'S POSITION BUT PRICE PER LARGE SEEMS PREPARED TO DROP DEMAND FOR TEN CENT SECURITY ALLOWANCE AND FOR REVISION OF GRAVITY ADJUSTMENT FORMULA (WHICH LARG APPARENTLY HAD BASED UPON INDEFENSIBLE INTERPRETATION OF VENEZUELEAN PRACTICE). MORE SIGNIFICANTLY, LARG AGREED IN PRINCIPLE TO VARIABLE - AS OPPOSED TO FIXED - FREIGHT ELEMENT IN POSTED PRICE BUILD-UP. AT CONCLUSION OF YESTERDAY'S SESSIONS THERE ALSO WAS SUGGESTION THAT LARG MIGHT AGREE TO QUIT CLAIM FOR PAYMENTS PRIOR TO JAN. 1971 AND THAT TWO WEEK (MAR. 10) DEADLINE FOR RECONVENING MEDITERRANEAN PETROLEUM MINISTERS IN TRIPOLI COULD BE POSTPONED IF NEGOTIATIONS WERE PROGRESSING.

3. ON NEGATIVE SIDE, JALLUD RAISED POSTED PRICE ANTE BY 5 CENT "STABILITY FACTOR" INCLUDED IN TEHRAN AGREEMENT, BUT REFUSED TO BE PINNED DOWN ABOUT LONG-TERM (FIVE YEAR) AGREEMENT. JALLUD INSISTED THAT LARG MAINTAINED RIGHT TO REOPEN ANY AGREEMENT IN LIGHT OF "CHANGING CIRCUMSTANCES". POSITIONS OF TWO SIDES ALSO REMAINED UNCHANGED ON TWO - OR POSSIBLY THREE - BREAK POINTS, I.E., MANDATORY REINVESTMENT, RETROACTIVE FREIGHT (SUEZ) ALLOWANCE AND TAX RATE INCREASE. ON REINVESTMENT, LARG AGAIN SAID THAT IT WAS NOT WEEDED TO 25 CENT/BARREL REINVESTMENT RATE NOR TO FORM FOR REINVESTMENT IT HAD PROPOSED - BUT LARG INSISTED THAT RECOGNITION BY COMPANIES OF FIXED REINVESTMENT OBLIGATION WAS ESSENTIAL. ON FREIGHT ALLOWANCE, LARG SHOWED NO GIVE AND INSISTED UPON RETROACTIVE APPLICATION TIED TO CLOSURE OF SUEZ CANAL. SOME COMPANIES CONSIDER THERE IS REASONABLE PROSPECT THAT LARG WILL ACCEPT MAXIMUM TAX RATE OF 55 PER CENT, ACCOMPANIED BY PER BARREL SURCHARGE TO REFLECT HIGHER RATE OF PAYMENTS AGREED TO IN 1970 TO SATISFY LARG'S DEMANDS FOR RETROACTIVITY AT THAT TIME. OTHERS [redacted] CONSIDER THAT AGREEMENT ON SURCHARGE IS UNLIKELY AND THAT BREAK COULD OCCUR ON THIS ISSUE

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AS WELL.

4. MARCH 3 SESSIONS CLOSED WITH COMPANIES AGREEING TO PRESENT WRITTEN PROPOSALS TO LARG ON MARCH 7. COMPANIES INTEND [redacted] PRESENT PROPOSALS - WITH ALL OTHER MEMBERS OF INDUSTRY GROUPS PREPARED TO SUBMIT IDENTICAL OFFERS. NO OIL NEGOTIATING SESSIONS HELD TODAY AND NONE SCHEDULED BEFORE MARCH 7. B1

5. COMMENT: AFTER MARCH 3 SESSIONS WE CONCLUDE, AND OUR IMPRESSION IS THAT COMPANIES ALSO BELIEVE, THAT LARG WANTS TO REACH SETTLEMENT. THIS IS NOT TO SAY THAT RESULTS OF NEGOTIATIONS CAN BE FORESEEN OR THAT EVENTUAL NEGOTIATED SETTLEMENT IS CERTAIN. GAPS REMAIN ON ALL ISSUES AND THERE IS BASIC DISAGREEMENT ON REINVESTMENT AND RETROACTIVITY. [redacted] B4

[redacted] RETROACTIVITY ISSUE IS EVEN MORE DIFFICULT TO HANDLE HOWEVER, AND POSSIBILITY REMAINS THAT THIS ISSUE IS POLITICALLY MOTIVATED - AS ORIGINALLY STATED BY JALLUD - TO BRING PRESSURE ON USG MIDDLE EAST POLICY THROUGH OIL INDUSTRY AND CONSUMERS. COMPANIES RECOGNIZE THIS MAY BE ROOT OF RETROACTIVITY CLAIM BUT HAVE TOLD US THAT AREA POLITICS HAVE NOT BEEN INTERJECTED INTO CURRENT NEGOTIATIONS SO FAR.

6. TO A DEGREE, LARG NOW HAS PROVED TO COMPANIES THAT IT IS SERIOUS IN CURRENT TALKSN AND, IN LARG'S VIEW, BALL IS NOW IN COMPANIES' COURT. LARG REJECTED OUT OF HAND INITIAL ORAL INDICATIONS BY COMPANIES OF WHAT THEY WERE PREPARED TO OFFER. LARG OBVIOUSLY EXPECTS SIGNIFICANT IMPROVEMENT IN MARCH 7 OFFERS. COMPANIES ARE PREPARING TO BE RESPONSIVE - BUT WITHOUT GIVING ON VITAL ISSUES. GP-3.
PALMER